

Message Text

UNCLASSIFIED

PAGE 01 BOGOTA 07324 162010Z

70

ACTION ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 DRC-01 /158 W

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P R 161800Z AUG 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC PRIORITY 4339

INFO AMCONSUL CALI

AMCONSUL MEDELLIN

UNCLAS BOGOTA 7324

E O 11652 NA

TAGS EFIN CO

SUBJ: LOPEZ ADMINISTRATION ANNOUNCES FINANCIAL REFORMS

REF BOGOTA A-99

1) IN TELEVISED MESSAGE AUG 14 NEW FINMIN RODRIGO BOTERO REVEALED SOME TECH FINAN ASPECTS OF PRES LOPEZ' ECONOMIC PROGRAM WHICH MOVE IN DIRECTION OF RATIONALIZING COLOMBIA'S MONETARY SYSTEM. IF NEW MEASURES ARE RELIABLE GUIDE TO THOSE YET TO COME, THEY PORTEND SOUND IMPROVEMENTS IN OVERALL ECONOMIC POLICIES. SPEECH WAS SOMETHING OF A LETDOWN, HOWEVER SINCE PRESS HAD PREPARED LISTENERS FOR MUCH BROADER INSIGHTS INTO LOPEZ' POLICY OF STABILITY AND AUSTERITY, SO THAT AUDIENCE EXPECTED PRONOUNCEMENTS ON BUDGET, EXPORT PROMOTION, TAX REFORM, FORN LOANS, NEW INVESTMENT MECHANISMS, AND PERHAPS BROADER MONETARY OR FINAN MEASURES AND EVEN SOME SORT OF REQUEST FOR EMERGENCY POWERS. BUT BOTERO SAID PRES WOULD MAKE FURTHER ECONOMIC PROPOSALS TO CONGRESS WHEN IT RECONVENES NEXT WEEK AND CONFINED HIMSELF TO EXPLAINING SOME MODIFICATIONS OF FINAN SYSTEM. HE OUTLINED CHANGES IN INTEREST RATES AFFECTING CONSTANT VALUE SAVINGS AND LOAN SYSTEM (UPAC) AND TRADITIONAL SAVINGS DEPOSITS, CHANGES IN RESERVE REQUIREMENTS, REDUCTION OF

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PAGE 02 BOGOTA 07324 162010Z

FORCED INVESTMENTS AND SOME STRUCTURAL CHANGES IN MONETARY CONTROL

SYSTEM. MEANWHILE, AMIDST WIDERANGING EXPRESSIONS OF SUPPORT FOR GENERAL OUTLINES OF NEW GOC ECONOMIC PROGRAMS AND FOR SPECIFIC MEASURES ANNOUNCED BY BOTERO, INDUSTRIAL SECTOR SIGNALLED THAT IT WOULD WELCOME ACTIVATION OF EARLIER ADVERTISED TRIPARTITE COMMISSION (BUSINESS, LABOR, GOVERNMENT) TO ADVISE ON SUCH PROGRAMS.

2) CHAOS IN UPAC SYSTEM REQUIRED URGENT ACTION IN FINAN AREA. AS RESULT OF RUMORS THAT LOPEZ WOULD DECREE FARREACHING ALTERATIONS IN SYSTEM, HEAVY WITHDRAWAL OF DEPOSITS HAD OCCURRED IN LAST THREE WEEKS (SEE BOGOTA A99 WHICH SUGGESTED THIS WOULD OCCUR.) AND SYSTEM WAS NO LONGER LIQUID. OVER 100 MILLION PESOS, PARTLY FROM CENTRAL BANK, HAD BEEN BORROWED BY UPAC CORPS TO MEET DEPOSITOR DEMANDS. ACCORDINGLY, WHILE NEW TEAM DOES NOT LIKE UPAC SYSTEM, IT HAD TO BOLSTER DEPOSITOR CONFIDENCE IN ORDER TO AVOID GRAVE CONSEQUENCES TO FINAN AND CONSTRUCTION SECTORS. NEW REGS LIMIT TAX EXEMPT MONETARY CORRECTION TO 20 PERCENT AND REQUIRE CORPS TO LIMIT LOAN APPROVALS AND DEVELOP ADEQUATE RESERVES.

3) AT SAME TIME INTEREST RATES FOR TRADITIONAL SAVINGS DEPOSITS WERE RAISED FROM 1 1/2 TO 12 PERCENT IN ORDER TO OFFER BETTER RETURN TO SMALL SAVINGS AND REDUCE WIDE DISPARITY IN INTEREST RATES. RESERVE REQUIREMENTS FOR BANKS ON SAVINGS WERE LIMITED TO JUNE 20/74 LEVEL AND FORCED INVESTMENTS REDUCED TO HELP COMPENSATE FOR INCREASED RATES. FORCED INVESTMENT BY INSURANCE COMPANIES WERE ALSO REDUCED TO PROMOTE LOWER RATES. OTHER MEASURES INCLUDED REGULATION OF REDISCOUNT RATES, LINES OF CREDIT WITH CENTRAL BANK, AND DEPOSITS OF DECENTRALIZED AGENCIES. DETAILS ON THESE MEASURES ARE NOT YET AVAILABLE BUT WILL PROBABLY BE OF CONSIDERABLE IMPORTANCE IN LONGRANGE RESTRUCTURING OF FINAN SYSTEM. FREEING UP OF BANKING OPS SUGGESTS THAT NEW ADMIN POLICY WILL BE TOWARD GREATER OPERATION OF MARKET FORCES IN FINAN SECTOR.

4) BOTERO EMPHASIZED THAT NEW FINAN MEASURES WERE MERELY FIRST STEP OF NEW ADMIN TO FIGHT INFLATION AND PROMOTE ECONOMIC STABILITY. HE NOTED THAT ADMIN WOULD SEEK TO CONTINUE TO REDUCE WIDE DISPARITY IN INTEREST RATES PARTICULARLY TO REDUCE INORDINATE BENEFITS TO LARGE SAVERS AS OPPOSED TO LOWER AND MIDDLE CLASS. HE ALSO INDICATED THAT ENTIRE FINAN SYSTEM WILL BE GRADUALLY OVERHAULED IN EFFORT TO PROVIDE NOT ONLY GREATER EQUITY IN SYSTEM BUT ALSO TO INCREASE SAVINGS, PERMIT MORE EFFECTIVE MONEY-
UNCLASSIFIED

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PAGE 03 BOGOTA 07324 162010Z

TARY POLICY, AND RETURN FINAN SYSTEM TO MORE REALISTIC REFLECTION OF FREE MARKET OPS. PRELIMINARY REACTION BY BOTH PRESS AND FINAN COMMUNITY HAS BEEN HIGHLY FAVORABLE. BUSINESS REACTION HAS ALSO BEEN GENERALLY FAVORABLE WITH SOME RESERVATIONS.

5) AIRGRAM WITH DETAILS OF NEW REGS FOLLOWS. VAKY

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